

So Far, High Hotel Prices Not Hampering Furniture Market

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Article:

The latest installment of High Point's International Home Furnishings Market has ended. And now that our guests have departed, we can talk about something we might not want to discuss in front of them: the high cost of lodging during Market.

Every April and October, tens of thousands of exhibitors and buyers come to High Point to show and look at new furniture lines, place and take orders, and reestablish relationships. The sheer number of people puts significant pressure on the area's hospitality infrastructure. Some Market attendees rent private homes during their visit, while others stay in hotels miles away from downtown High Point.

Many hotel rates rise during this time. At the Radisson Hotel in downtown High Point, rooms that go for less than \$100 throughout the rest of the year command four times that much during Market. In nearby towns, it's not uncommon for room rates to rise 50 or 60 percent.

Those who object to these rate increases call this behavior "price gouging." Many Market attendees complain about similar price increases by area restaurants and rental-car agencies. A recent item on the Opinion page of the News & Record gave a thumbs-down to "price gouging during market."

In the most recent "Mood to Market" survey of furniture retailers conducted by UNCG's Office of Business and Economic Research on behalf of the accounting firm Dixon Odom, 51 percent of Market attendees identified "better or less expensive lodging" as the most important change they'd propose for Market. Very few cited problems with transportation, scheduling, or dining. (A sizable minority said that Market was "fine as is.")

However, what feels like "gouging" to some people is just the natural operation of supply and demand. During Market, the demand for lodging rises and that pushes prices up.

The effect is more pronounced the closer one gets to downtown High Point, because proximity to Market showrooms is more highly valued than a 20-minute drive.

In this sense, the Furniture Market season in High Point is no different than the summer vacation season on the Outer Banks or the autumn leaf-watching season in the North Carolina mountains. During the height of those other seasons, beachside cottages and mountain cabins with a view rent for more than similar places elsewhere. Peak seasons beget peak prices, and premium locations beget premium prices. That's how markets work.

And it's a good thing. If hotel rates in and around High Point didn't rise during Market, there would be huge shortages, and the question of who would get which hotel rooms would be determined by random chance, personal connections, side-payments (which is the economist's value-neutral term for bribery), or all of the above. Compared to all that, higher hotel rates that are known to all seem like a fair and equitable way to distribute those rooms among Market attendees.

But fairness is often in the eye of the beholder. We've always had a love-hate relationship with markets, and issues of fairness are always prominent on the hate side. As natural and effective as high peak prices are, they annoy the heck out of a lot of us.

In a 1991 study of popular attitudes about markets, Yale economist Robert Shiller and two Russian colleagues asked the following question of residents of New York City and Moscow: "On a holiday, when there is a great demand for flowers, their prices usually go up. Is it fair for flower sellers to raise their prices like this?"

In Moscow, only 34 percent of respondents said that higher flower prices were fair. That wasn't surprising, because the survey was conducted at a time when the old Soviet system was a very recent memory and the movement toward capitalism was a very messy affair. But in New York City, arguably the center of American capitalism, 32 percent agreed. Given the stark contrast between the economic environments in New York and Moscow at the time, one is tempted to say that this perception of unfairness is rooted in human nature.

Residents of the two cities parted company when asked a follow-up question: "Should the government introduce limits on the increase in prices of flowers, even if it might produce a shortage of flowers?" Fifty-four percent of Muscovites said yes, as compared to only 28 percent of New Yorkers. So while most New Yorkers thought that the higher flower prices were unfair, fewer than a third thought that anything should be done about them.

Are Market attendees more like the Muscovites, who see unfairness and want change, or the New Yorkers, who see unfairness and shrug their shoulders? Will high prices in High Point make today's attendees less likely to attend in the future? For many, this issue raises the specter of the proposed Western regional market in Las Vegas, a city in which an event the size of the High Point Market would have much less effect on local prices.

It's hard to know what authorities in High Point could do about high prices. It's one thing to set up the transportation system that now carts people around Market, but it's quite another to try to restrict the pricing decisions of private businesses. And private business concerns aren't going to construct many more hotels, which would be mostly vacant throughout much of the year.

If everything about Market were controlled by a single decision-maker, it could engage in what economists call "limit pricing," in which the decision-maker would limit price increases during Market as a way of dealing with the threat of potential competition. But Market is a big and organic entity, and the important decisions are made by hundreds of different businesses.

Perhaps Market authorities could leverage access to their transportation system and devise an incentive program that would mitigate rate increases at participating hotels.

Encouragingly, only about 10 percent of Market attendees contacted as part of the "Mood to Market" survey said they would attend a Las Vegas market instead of High Point. While some survey respondents made ominous comments about the attractiveness of Las Vegas, others noted that high prices in High Point are just part of the cost of doing business at Market.

Like those New York City flower buyers, maybe Market attendees just need to vent their frustration with high prices. After all, it's human nature to complain. For now at least, it appears that the perceived unfairness of high prices during Market isn't driving attendees away.